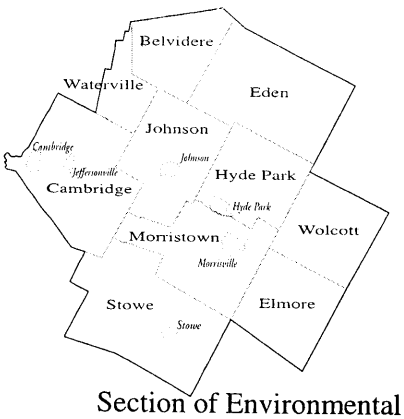

Lamoille County Planning Commission
The Tegu Building • 43 Portland Street
P.O. Box 1009
Morrisville, Vermont 05661-1009
(802) 888-4548 • e-mail: lcpc@pshift.com • fax: (802) 888-6938

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Section of Environmental Analysis
Surface Transportation Board
Room 500
1925 K Street, N.W.
Washington, DC 20423-0001

AB-444-(Sub-No.1X)

November 25, 2003

Re: *Lamoille Valley R.R. Co. — Abandonment Exemption — In Caledonia, Washington, Orleans, Lamoille, and Franklin Counties, Vermont*
Surface Transportation Board, Docket No. AB-44 (Sub-No. 1X)

To Whom It May Concern:

This letter is to confirm the support of the Lamoille County Planning Commission (LCPC) for a regulatory exemption allowing the Lamoille Valley Railroad Company (LVRC) to abandon its 95.26-mile-long railroad line between St. Johnsbury and Swanton, Vermont.

Approximately one third of the Lamoille Valley corridor runs through Lamoille County. As such, LCPC has been an active participant in numerous studies and extensive public processes leading to the State of Vermont's decision to pursue the discontinuance of service and "rail-bank" status for the corridor. Many studies of this corridor regarding the viability of railroad use have been undertaken since the corridor was last in active rail use in 1994.

In 1997, the Vermont Agency of Transportation and a group of Vermont State Legislators commissioned the Massachusetts Institute of Technology's Center for Transportation Studies to conduct a "Highest And Best Use Study" for the corridor. This study concluded that,

"The highest and best use of the line is recreational rather than industrial. With the exception of short sections at each end of the line, there is at best very minor potential for freight under the current conditions. Passenger operations are a better possibility, but it is not clear that passenger operations will be profitable enough to cover long term maintenance of the line. A major change in the competitive balance of railway and highway operations and costs would have to occur to modify these general conclusions."

More recently in 2000/2001, LCPC, along with our fellow regional planning agencies in the two adjacent regions through which the corridor passes, as well as the Regional Chambers of Commerce and Regional Economic Development Corporations, participated in an extensive public involvement process in partnership with the Vermont Agency of Transportation. Known as the "Mountain Valley Corridor Consortium", this group conducted a detailed request for proposals process at the request of the Vermont Agency of Transportation. The Consortium reviewed proposals for use of the corridor ranging from upstart of new rail services to full trail conversion. After careful deliberation of the proposals, this group of planners, economic development, and business & commerce professionals concluded that rail

operations as proposed were simply not viable and that the proposed conversion of the corridor to a four-season, multi-use trail would be the best use of the corridor.

In addition to this finding and endorsement by the Agency of Transportation, the Vermont State Legislature directed the Legislative Joint Fiscal Office (JFO) to hire an independent consultant to review the main rail service proposal submitted as part of the process described above. This study, known as the "Stone Report", concluded that the massive capital costs of rehabilitating the line and the marginal returns the passenger excursion based service might achieve simply do not make for viable rail operation. Furthermore, the Stone Report states that Vermont should not embark on the reinstatement of rail service on this line unless it is fully expectant of and committed to multi-million dollar investments in the line. At several recent sessions, the Vermont legislature has made it very clear that it has no interest in the committing to the heavy financial burden that would be necessary to restore this line to railroad operation.

For your reference, I have enclosed the following items for your review and for consideration in your deliberation of this matter:

1. 1997 M.I.T. Study concluding that the economic conditions for the success of rail are simply not present and that recreational uses are the "highest and best use" of the corridor.
2. The 2001 "Stone" Report review of the proposed rail use submitted as part of the 2000/2001 solicitation of proposals for use of the corridor, confirming the unlikely potential for success of the rail service and the confirmed investment that the State Legislature has clearly stated it has no interest in undertaking.
3. The Vermont Agency of Transportation's official 2001 declaration of support for the Mountain Valley Corridor Consortium's recommendation that rail service not be pursued for the corridor and that various trail uses be pursued once the corridor is placed in rail-bank status
4. The State Transportation Bill subsections from the 2001/02 and 2002/03 legislative sessions, directing the Agency of Transportation to pursue the discontinuance of service and rail-banking process for the corridor, as well as pursuit of leases with various interim trail uses for the corridor

The public has spoken through the processes outlined above and through their elected representatives in the Vermont State Legislature. The Surface Transportation Board's approval of the requested regulatory exemption will allow the LVRC to surrender its leasehold, opening the way for the State of Vermont, as the line's owner, to make segments of the corridor available to for interim trail use as is the stated desire of the Vermont Agency of Transportation and the State of Vermont Legislature. Please take the final step in this process and enable Vermont to move forward with the reuse of this corridor for a viable purpose.

Sincerely,

Michele Boomhower

Michele Boomhower
Executive Director

cc: Mr. James B. Fitzgerald
Lamoille Valley Railroad Company
c/o VTrans Rail Section
National Life Building
Drawer 33
Montpelier, VT 05633-5001

A Study Conducted for the
Northeast Vermont Development Association

ANALYSIS OF THE LAMOILLE VALLEY RAILROAD AND DETERMINATION OF THE HIGHEST AND BEST USE OF THE RAIL CORRIDOR

Draft Final Report

by
Carl D. Martland
Senior Research Associate

Jimmy Tsz Kwan Wong
Research Assistant

Center for Transportation Studies
Massachusetts Institute of Technology
Cambridge, MA 02139

June 3, 1997

Principal Investigator: Carl D. Martland
Senior Research Associate & Lecturer
Department of Civil & Environmental Engineering
Room 1-153
Phone: 617-253-5326
FAX: 617-258-5942
E-Mail: martlan@mitvma.mit.edu

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Analysis of the Lamoille Valley Railroad and Determination of the Highest and Best Use of the Rail Corridor

"Reaching from Swanton to St. Johnsbury this unique line follows the Lamoille and Sleepers Rivers and wends its way through gorgeous countryside, a rare wooden covered RR bridge, and classic 19th century small town rail facilities."
- Javin Pierce, Chairman, Vermont Rail Alternatives

1 Introduction

1.1 Overview

The Lamoille Valley Railroad was saved from abandonment when it was purchased by the State of Vermont in 1978. The Vermont Agency of Transportation spent $22 million to rehabilitate the line so that it could once again provide freight service and promote development within the northern part of the state. The right-of-way was leased to the Lamoille Valley Railroad Company in 1978. In 1989, CSF Acquisition, a company that owns several shortline railroads, acquired the capital stock of LVRC and Clyde Forbes became president of the LVRC.

It is now nearly twenty years after the line was first leased to the LVRC, and it is apparent that the railroad has not been successful. For a variety of reasons, traffic volumes continued to decline through the 1980s. Almost no freight service is currently being provided, the line has in fact had little or no freight traffic in eight years, and the line has not been a factor in development.

Initial efforts to provide excursion passenger service have had modest success, but not enough to allow the operator to make lease payments to the state. In fact, since the state first leased the line to a private operator in 1978, total lease payments have amounted to a mere $140,000. By any ordinary standard, the line is a prime candidate for abandonment. Indeed, the Vermont Agency of Transportation has had discussions with LVRC concerning possible abandonment of portions of the line.

Abandonment of a rail line can proceed through three stages. At the first stage, all freight and passenger services are terminated; the tracks remain in place, but no maintenance need be done. At the second stage, the rail is removed for use elsewhere or for sale as scrap steel, but the right-of-way remains intact and available for future transportation uses. In the third stage, the right-of-way is broken up: the land is sold, leased, developed or returned to prior owners. Much of the right-of-way of the LVRC is in effect at the first of

these stages. Although not formally abandoned, much of the line has had no train traffic in years and in fact is impassible because of washouts and lack of maintenance.

The immediate issue is whether or not to abandon the line. From a freight perspective, the answer is clearly "yes" for most if not all of the line, but there may be enough potential for excursion trains and other innovative passenger services to at least defer abandonment. A basic question is whether or not passenger operations can be successful enough to support routine maintenance for all or most of the route and therefore keep alive the option for future freight service. If not, can passenger operations sufficiently profitable to maintain operations over a short stretch of track? Given the demonstrated public support for rail and the success of excursion trains elsewhere in Vermont and in neighboring New Hampshire, it is worth some effort to implement such services on the LVRC.

In the medium term, the primary issue is the conversion of the right-of-way to a multiple-use transportation corridor, which is most likely the highest and best use of the right-of-way. The corridor is already used to a limited extent for recreational activities and certainly would provide an attractive setting for recreational opportunities for both residents and visitors. The corridor could retain some portions of the rail operation as well as a transportation path. The path, which could include paved, gravel and natural sections, could be used for walking, jogging, hiking, fishing, biking, camping, skiing, and snowmobiling. The path could provide a boost to tourism in Northern Vermont, particularly in the towns and resort areas along and near the railroad. Studies from around the country show that people using such paths help the local economies through their purchases of food, lodging, outdoors gear, gas, etc. Converting the right-of-way to a multiple-use transportation corridor would therefore provide a boost to the local economies and, through the taxes on meals and lodging, provide some return to the state for its investment in the corridor.

In the long run, the most important issue is the preservation of the corridor as an important transportation asset for northern Vermont. As long as the right-of-way remains intact, it will be possible to re-institute rail (or other transportation) services if there are marked changes in competitive forces, economic development, fuel prices, or environmental factors. We therefore recommend that the corridor be retained even if the railroad is abandoned and the rail is salvaged.

1.2 Background

This study was initiated in response to a request from the Vermont Agency of Transportation and several representatives of the State Legislature to determine the "Highest and Best Use" of the LVRR right-of-way. The study was conducted under the supervision of the three Regional Planning Commissions in Northern Vermont: the Northeastern Vermont Development Association (NVDA), the Lamoille County Planning Commission, and the Northwest Regional Planning Commission. A public hearing concerning the possible uses of the corridor was held in Hyde Park on April 10th; technical meetings were held at MIT on April 18th and at VAOT on May 19th. Another public hearing will be held in June to discuss the results and conclusions of the study.

1.3 Contents of the Report

Section 2 provides an overview of the right-of-way, summarizing curvature and grades for six major route segments. Section 3 discusses what is meant by "highest and best use" and reviews issues related to the time and geographic scales. Section 4 presents the major options for the use of the corridor, including recreational and other alternatives to rail freight and passenger service. Section 5 ranks each of the six major route segments in terms of their suitability for the major options. A basic conclusion is that conventional techniques indicate that the LVRR is a prime candidate for abandonment, so that innovative approaches would be needed to justify continued public support for the rail operations. Section 6 provides some discussion of two areas where further study might help to identify innovative approaches to using the railroad, namely tourism and the forest products industry. Section 7 summarizes the study and presents conclusions concerning the highest and best use of the corridor.

2 The Lamoille Valley Railroad

2.1 Overview

The Lamoille Valley Railroad extends 96 miles from St. Johnsbury to Swanton, creating a link between more than 15 towns and communities. At St. Johnsbury, the LVRC connects with the Twin State Railroad (TSRD) and the CP. The TSRD continues eastward into Whitefield, NH, with connections to the New Hampshire & VT leading to Portland and points east. The CP route extends along the Connecticut River with connections to the Canadian network and to southern New England and the rest of the US rail network. At Swanton, the railroad connects with the New England Central, which provides access toward Montreal and south into Vermont.

Information concerning the current status of the LVRC was provided by Mr. David H. Anderson:

1. There is a single active shipper, located in the vicinity of Fonda Junction at the west end of the line.
2. Although various marketing efforts have been attempted over the years, "no credible commitment to rail service has been made by any shipper on the line in years."
3. LVRC has operated excursion passenger services, even though "given track maintenance expenses, excursion operations are usually viable only on lines with active freight operation."
4. LVRC has worked to accommodate recreational interests, state interests with respect to nearby highways, utility companies, and real estate development needs of abutters at "considerable time, money, and liability" for the railroad.
4. LVRC is willing to consider alternative uses of the corridor, including abandonment: "LVRC consented to the State's request to seek abandonment authority from the U.S. Surface Transportation Board with respect to the west end of the line. LVRC did so only after that action was specifically approved by the Vermont Legislature." The state later on asked LVRC to withdraw its abandonment petition, and the LVRC "was the first to request a formal 'highest and best use analysis' of the line."

2.2 Right-of-Way

The characteristics of the route vary greatly from east to west. The line can be divided into six major segments, based upon terrain, historical junctions, and towns with rail facilities:

1. St. Johnsbury to E. Walden (Milepost 0 to 22): From St. Johnsbury, the route climbs almost continuously with grades of 1.4-1.8% for 16 miles until it levels out for a mile or so around Joe's Pond in Danville. It continues its climb for another 2 miles, reaching its highest point in Walden.

Near this point, the bridge over Route 15 has been removed because of concerns for highway safety. Although a new bridge could be constructed or inserted at this point, the line is currently broken into two sections.

2. East Walden to Hardwick (Milepost 22-36): The line then veers away from Route 15; it goes north to Greensboro Bend, where it turns sharply to the south, as suggested by the name of the town, reaching Route 15 again 2 miles short of

Hardwick. This portion of the route declines continuously with grades up to 1.4% as it descends to Granite Junction near the center of Hardwick (milepost 36).

3. Hardwick to Morrisville (Milepost 36-49): The line now follows the valley of the Lamoille River on a mostly flat, relatively straight stretch to Morissville. At Morrisville, there are terminal buildings, a locomotive and car repair shop, and a small yard.

4. Morrisville to Cambridge Junction (Milepost 49-64): The line continues along the Lamoille Valley, becoming even flatter and straighter. In some places, the line is on a causeway, and there are numerous bridges. The track structure is therefore subject to washouts and other damage from spring flooding.

5. Cambridge Junction to Sheldon Junction (Milepost 64-85): The line veers northward again, through flat countryside or rolling hills up to Sheldon Junction, where it turns west.

6. Sheldon Junction to Swanton (Milepost 64-85): The line curves westward into Swanton, where it connects with the NECR.

Exhibit 1 summarizes the characteristics of these segments. The exhibit gives the number of sharp curves (at least 4 degrees of curvature) and very sharp degrees (at least 7 degrees of curvature). There are additional very short curves of less than about 0.1 mile that are not included in this exhibit. By way of comparison, a typical railroad in the US will have less than 30% of its mileage in curves, with very few curves greater than 6 degrees. The exhibit therefore shows that the eastern portions of this route are unusually steep and curvy, while the western portions are more typical.

3 Assessment of Alternatives: Overview

3.1 Highest and Best Use

The purpose of this project is to determine the highest and best use of the LVRR corridor. At the technical meetings, it was explained that the term "highest and best use" is not used in a precise legal sense nor is this a term defined or required by any Vermont legislation. Rather, it is a term in common use in the real estate and development communities that refers to the most profitable use of land. The following definition can be found in the "Appraisal Terminology Handbook":

Exhibit 1
General Characterization of Segments of the LVRC

Segment	Grades	Curves > 4 degrees	Curves > 7 degrees	% Curves
St. Johnsbury to E. Walden	Very Steep	30	17	50%
E. Walden to Hardwick	Steep	20	6	45%
Hardwick to Morrisville	Mostly Flat	25	9	35%
Morrisville to Cambridge Jct.	Flat	14	5	40%
Cambridge Jct. to Sheldon Jct.	Rolling	4	1	25%
Sheldon Jct. to Swanton	Rolling	2	2	20%

"HIGHEST AND BEST USE - The most profitable likely use to which a property can be put. The opinion of such use may be based on the highest and most profitable continuous use to which the property is adapted and needed, or likely to be in demand in the reasonably near future. However, elements affecting value which depend upon events or a combination of occurrences which, while within the realm of possibility, are not fairly shown to be reasonably probable, should be excluded from consideration. Also, if the intended use is dependent on an uncertain act of another person, the intention cannot be considered.

"That use of land which may reasonably be expected to produce the greatest net return to land over a given period of time. That legal use which will yield to land the highest present value. Sometimes called optimum use."

In the case of the LVRR, the property is clearly "adapted" to transportation, as the initial construction and subsequent maintenance of the line have provided a continuous, level right-of-way with modest grades and reasonable drainage. Designed for rail service, the right-of-way could be used for a variety of other modes of transportation. The question is the extent to which the corridor is "needed, or likely to be in demand in the reasonably near future".

The above definition excludes unlikely uses or uses dependent upon a series of uncertain events. Instead, it speaks of a use that can "reasonably be expected to produce the greatest net return". The selection of the "highest and best use" is therefore a choice among alternatives that are reasonably well defined and for which there is clear basis for assessing benefits.

In the case of the LVRR, the land is owned by the state, and the reference to "profitability" need not be interpreted narrowly, but should consider such things as economic development, environmental factors, and attraction of people to the region. The "greatest net return" could be interpreted as the greatest benefit to the public in the region served by the railroad.

State ownership also affects the time frame of interest, since the time period relevant to a public authority can be longer than that used by a private company or individual. Therefore, the reference to the "reasonably near future" need not be interpreted as restricting the time period of consideration to a few year or even to a few decades. The state has a legitimate interest in the availability of rights-of-ways and transportation infrastructure well into the next century. Therefore, the determination of highest and best use can take quite a long-run perspective in this case.

3.2 Time Scale

There are three distinct time scales of interest in determining the highest and best use of the corridor.

Long-term: 30+ years (long enough for new transportation technologies to proliferate or for major shifts in energy prices or land use to make rail attractive to highway modes)

Medium term: 5-30 years (long enough for major investments to be required to keep the railroad operational and also long enough for substantial changes in transportation technology and prices)

Short term: 1-5 years (short enough that current prices, technologies, and trends can be projected with reasonable confidence)

The basic long-term question is whether or not the corridor might at some time be valuable to Northern Vermont for rail or for some other sort of transportation requiring a continuous corridor with a width of at least 30 feet. Since dramatic changes in fuel prices, shifts in population, traffic gridlock in urban areas, development of new technologies (electric vehicles or mag-lev) are all possible given enough time, it is clear that this transportation corridor could have a number of productive transportation uses in the long term. It is also clear that the cost of creating a new right-of-way is already prohibitive, both politically and economically. Therefore, the "highest & best use" of this corridor must at least preserve the corridor for possible transportation uses for future generations.

In the medium term, the "highest and best use" could include rail operations, but only if there is enough benefit from these operations to justify not only maintenance but also upgrading of the entire line. A major tie renewal program will eventually be needed, and significant portions of the line will eventually require surfacing or ballast cleaning. Either task could eventually require an outlay of $25-$50,000 per mile or up to $50 million for the entire line. When expenditures of this magnitude become necessary, continued public subsidy of the rail line would be justifiable only if there are substantial freight and/or passenger users.

The basic short term question is whether or not there is enough potential for profitable rail service along the length of the corridor to justify continued maintenance (not necessarily a major upgrading or rehabilitation). Annual maintenance requirements are likely to average over $1 million simply to break up clusters of bad ties, repair washouts, clear brush, and conduct other minimal but essential maintenance. If there is clear potential, or if there is clear support for maintaining the rail freight and passenger options, then the price of routine maintenance may be a minor matter. If the potential benefits of other uses are very high, then it could be desirable to shift to these other uses as soon as possible.

3.3 Scale of the Networks

The scale of the various transportation networks that might use the corridor varies from 500 or more miles for rail freight to less than a mile for family walks near village centers or scenic areas (Exhibit 2).

Exhibit 2
Geographic Scale Relevant to Potential Uses of the Corridor

Rail freight	Average shipment length is over 600 miles, although there are some moves as short as 20-50 miles for high volume, bulk commodities
Intercity passenger	Too long for car, but too short for air, i.e. 50 - 250 miles
Commuter passenger	5-25 miles, focussed on an urban activity center
Excursion and tourist roads	5-50 miles in a scenic or historic region
Snowmobiling	10-100 miles
Bicycling	10-50 miles (athletic bikers)
	1-10 miles (family bikers)
Hiking	2-20 miles
Walking	0.25-5 miles

The diversity of scales is important strategically and suggests that the best use will vary depending upon local conditions. The overall corridor is relevant primarily from the rail freight perspective. In general, New England rail freight options cannot be understood without reference to a network that extends at least as far as Cleveland (and probably Chicago) to the west and Washington D.C. to the south. Compared to typical 500- to 1000-mile rail hauls, the LVRC corridor is very short; even if freight were to move across the corridor, the LVRC would be a minor link in a much longer journey. Moreover, it would be a minor, redundant link since nearby railroads offer competitive routes in all directions.

Passenger rail options are much more local than freight, as intercity rail service can be competitive with both air and automobile for trips of 50 to 250 miles. However, the population density of the corridor is too low to support any significant intercity service, and its location does not make this a logical through route between major population centers. The passenger options must therefore be related to the regional transportation system within this rural area. The excursion operations would likely use well under 50 miles of track with station(s) in St. Johnsbury, Morrisville, or Swanton.

For recreational uses, the only long distance possibility would be an "interstate" for snowmobiles. Snowmobilers already travel hundreds of miles across northern New England and Southern Canada, so that a direct route across the Lamoille Valley linking up to Montreal on one end and to Northern New Hampshire on the other end might make appeal to snowmobilers. The obvious problem with this concept is that the railroad goes through the center of many small towns, often in or very close to residential areas that would be inappropriate for high speed, high volume snowmobiling.

Since there is already an extensive snowmobile network maintained in northern Vermont, a more realistic prospect would be to use shorter segments of the LVRR route to fill in gaps in the existing network. In fact, portions of the LVRR are already groomed as part of this network.

Bicyclers, cross country skiers, hikers, walkers and in-line skaters would all travel shorter distances on the corridor. Linkages with the highway system would be very important for bicyclers, while linkages with other trails would be important for hikers.

None of the various trail options requires the whole corridor. Snowmobilers could use substantial portions of the corridor, as they travel the longest distances, but even for them there is not reason why they would need to use the entire route. At the other end of the scale, family walkers would view the opportunities on a very local scale, i.e. what is available in each town or each local attraction.

3.4 Summary

Some major insights emerge from these consideration of time scale and geographic scale:

a. The highest and best use of the corridor is unlikely to be any single use.

b. The highest and best use of the corridor is unlikely to be the same use at all locations.

c. The highest and best use of the corridor will relate to the existing land use and geography along the line.

4 Options for the LVRC Corridor

The basic options for the corridor are rail freight, rail passenger (especially excursion and other tourist services), and recreation. There is also a proposal to use the corridor as a testing ground for innovative transportation systems. These are discussed in the following sub-sections.

4.1 Options for Continued Rail Operation

4.1.1 Freight Operation

Freight operation could include service to customers located on the line or operation as a bridge route between New Hampshire and Canada. To operate as a bridge route, the entire right-of-way must be maintained. To operate for local traffic, the right-of-way can be broken somewhere in the middle.

Even though there is currently no freight moving over the line, it might make sense strategically to keep the line available for freight. Significant changes in the attractiveness of rail relative to truck could occur as a result of such things as higher fuel prices, increased highway congestion, or location of new industry in Northern Vermont. If the rail were kept in place, then the line could be used in the future and the availability of rail service might prove useful in attracting business to the region or in allowing existing businesses to expand.

4.1.2 Passenger Operation

Possible passenger operations could include conventional inter-city or commuter service. Either of these services would be very difficult to initiate because of the small population base and the difficulty evident in establishing similar passenger operations in more populated regions of the state and the country.

Tourist-oriented services are better prospects in this corridor. Excursion trains using steam or diesel locomotives could be operated out of Swanton, Morristown, and/or St. Johnsbury. A tourist commuter service might also be feasible providing connections across Northern New England.

For tourist transportation in Northern New England, the nature of the scenery and the experience of riding a railroad are potentially strong attractions. Steam trains usually are quite popular, but other alternatives are available. This is an area where new designs could be helpful. A relatively inexpensive vehicle designed to carry 20 - 50 people who are seated facing wide windows would offer much better views than are available from a bus and might be quite attractive to tourists. Such vehicles could be used to provide a transit system along the rail corridors with shuttle services and transportation paths providing linkages to the various tourist locations along the corridor.

4.1.3 Abandonment options

If the entire line cannot be supported by freight or passenger operations, then portions of the line could be abandoned. Abandonment of a portion of the line would reduce operating and maintenance expenses and make it possible for the state to salvage the rail and other track material.

There are three prime options for abandoning the line in pieces. The first approach would be to abandon between somewhere east of Morristown and somewhere west of St. Johnsbury, while maintaining the line for rail service from Morristown to the west and in St. Johnsbury. The second approach would also abandon a portion of the line in and around Cambridge, leaving an unconnected piece centered on Morrisville for excursion operations. The third option would abandon all of the line between somewhere east of Swanton and somewhere west of St. Johnsbury, leaving small segments for potential freight or passenger at each end of the line.

There is also a possibility of different companies providing service along different portions of the tracks. In the extreme, the LVRR could be broken into three sections: the east end, the central, and the west end, with a different operator for each portion.

4.1.4 Summary of Rail Options

In summary, there are several strategic options for the railroad itself:

a. Abandon the entire railroad ASAP and salvage the rail.

b. Abandon the railroad in pieces and salvage the rail.

c. Defer abandonment as long as possible (i.e. until major investment is required), then abandon the railroad in pieces and salvage the rail.

d. Same as (c), but bury the rails, in order to preserve the rail option for the future while creating a transportation path for the present.

e. Keep the railroad in place, providing minimal investment as required to allow safe, low-speed operation

f. Upgrade the entire railroad to allow higher speed operation (with or without replacing the bridge in E. Walden)

4.2 Other Uses of the Line

4.2.1 Recreational Uses of the Line

A number of proposals have been made for alternative uses of this line, most of which revolve around recreation and tourism. The railroad could be maintained for passenger excursions or for some form of light rail shuttle transportation. It could be used as a linear park, with some sort of transportation service along the rail line used to link various recreational sites and towns. It could also be used as a hiking trail, bike path, ski trail, and/or snowmobile trail.

There are several levels of transportation corridors, and some terminology is needed to clarify some important distinctions:

Trail	No special surfacing is required. Accessible to walkers and hikers and possibly to mountain bikers, skiers, and snowmobilers as well.
Path	A paved or surfaced right-of-way that is wide enough, flat enough, and smooth enough to accommodate bicycles, snowmobiles, etc.
Accessible Path	A paved path that is accessible to people in wheel chairs, people pushing baby strollers, etc.
High-Speed Path	A paved or surfaced right-of-way that is wide enough, flat enough, and smooth enough to accommodate bicycles, snowmobiles, etc. operating at higher speeds (this would be wider, straighter, and flatter than a simple path)

Some characteristics of the various recreational uses are worth noting:

Snowmobile trail

This is potentially compatible with all other transport uses.

Linkage to VAST and other snowmobile networks.

Minimal investment required (bridges)

Hiking trail

Compatible in some locations with other uses.

Many local options (short stretches could be useful).

Linkage to trails (e.g. Mt. Elmore, Long Trail)

Some rerouting would be desirable in residential areas.

Minimal investment.

Bike path

Compatible with hiking and snowmobiles in all locations.

Compatible with rail options only where the ROW is wide enough.

Paved option is expensive ($40,000 per mile)

Gravel option is possible, and less expensive (mountain bikers could use a rougher trail, but would they be interested in a flat route?)

4.2.2 Road Options

There are a few locations where the right-of-way could be used as a new road, e.g. in Swanton, where the line provides the only access to a site that could be used for an industrial park. The right-of-way is generally 40 to 60 feet wide, which is wide enough for a two lane rural road.

4.2.3 Test Facility

A proposal for an alternative use of the LVRR was received from an association known as Vermont Rail Alternatives (V.R.A.). This group was "established to study and coordinate research and development activities concerning the LVRR corridor for interested community members."

The VRA proposal supports various of the options that have already been discussed, including various tourist rail options, creation of a bike path (with or without taking up the rails), and creation of a unpaved natural paths that could run parallel to the existing tracks.

VRA also is interested in the development of alternative rail vehicles, based upon recent national efforts to promote light weight solar-powered vehicles. In this regard, VRA has established relationships with the University of Vermont and various public agencies. The notion is that rail mounted vehicles could be extremely efficient and ultra-lightweight, because of the low friction and low grades characteristic of rail routes. Specifically, they propose a class of vehicles that would be in the "Ultralight Rail Class" including "human powered, electric, alternative fuel vehicles including solar, and local biomass products, flywheel supplemented and regenerative braking, as well as conventional modern and antique rail vehicles and rolling stock." They would like to have a portion of the LVRR uses

as a test bed for such vehicles, using "high tech information/traffic management technology" to enable multiple vehicle types to coexist on the line. They see this project as a "grass roots state effort to promote car free recreation and tourism in Northern Vermont."

Some of the issues addressed by VRA are clearly applicable to the LVRR corridor, while others are much broader in concept and application. The use of the LVRR for passenger service is an essential part of any plan to promote "car free recreation and tourism in Northern Vermont", and the VRA provides some eloquent support for this concept.

The notion of using a railroad as a test bed for innovative vehicle technology is not tied to the LVRC or to Northern Vermont. Any railroad with little or no traffic could be used periodically to test alternative vehicles.

5 Comparing the Options

5.1 Issues Related to the Analysis

Many different issues could influence the choice of the highest and best use of the corridor. The most important ones are discussed in this section.

Public Funding Requirements

Public funding requirements clearly are relevant, as such funds must be approved either at the state or local levels. Twenty years ago the state was willing to invest more than $20 million to rehabilitate the line, but the return on that investment has been nil. That experience suggests that simply upgrading the line again will not by itself attract any freight or any shippers. Much more modest investments, e.g. on the order of $1 million, could be supported as a means of protecting the earlier investment and preserving the option for future rail service.

Few, if any, public investments are made based upon a strict cost-benefit analysis. Continued public support for the rail system could compare favorably with other public expenditures for transportation, for development, or for other activities. This is ultimately a political decision rather than simply a matter of economic analysis.

Tourism and Tourist Attractions

The economy of this region, like that of neighboring regions, depends to a great extent upon tourists, visitors, and summer residents. The standard tourist map of Vermont highlights few attractions in Northern Vermont, and almost none along the LVRC corridor. Stowe is a major nearby attraction, and both ends of the corridor (Swanton and St. Johnsbury) are close to

and part of major recreational areas. However, there is very little else along this route. Excursion trains, tourist transit services, and a multi-use transportation path could all be highlighted on the maps and help attract people to the area.

Noise

Noise is an issue with snowmobiles, especially in the towns. In some cases, as in Morrisville, the route goes the backyards of residential areas, where it would be inappropriate to have a major high speed, high traffic volume snowmobile route.

Access

People will drive many miles to use a transportation path, if the path provides an unusual recreational opportunity. A paved path that allows bicycling, in-line skating, baby carriages, and easy walking through a picturesque rural environment will be viewed by many people as an opportunity worth traveling to. It will also serve as an additional attraction to the region. Parking and other facilities may have to be provided to control access or to encourage access at desirable locations.

Unwanted and unwarranted access is also an issue, especially for snowmobiling. At the initial public meeting, several people expressed opinions that it would be difficult to prevent snowmobilers from using any available trail. In their opinion, it would be naive to think that a portion of the route could be restricted in the winter to hikers and skiers.

Public Attitudes Toward Rail

There are strong positive feelings toward railroads in Vermont, with interest in both excursion trains and short line freight operations. These positive feelings are enhanced by media representations and persuasive entrepreneurs, but they are not necessarily grounded in an understanding of the costs of railroad operations.

The public views railroads as being energy efficient, with low emissions, and with low costs. These attributes are generally true, but they depend upon the density of operations. A local train with 2 loads and 3 empties or a passenger train with a diesel locomotive, 4 cars and 20 people will likely use more fuel, emit more greenhouse gases, and cost much more than the equivalent trucks or buses.

Liability

If the railroad continues to operate, there will be an issue of liability with respect to an adjacent transportation path. The operator will be concerned with the possibility that people using the path will end up on the tracks in the path of a train, with a chance for severe injuries or death. There could also be an issue of liability at grade crossings.

It is our understanding that the Vermont legislature is considering a law that would protect railroads from liability for injuries or fatalities involving trespassers. Some action on this issue would be necessary to maintain use of the railroad as well creation of a transportation path.

Liability will also be a concern with other users of a path. Bikers and snowmobilers could be involved in accidents with each other and with other users.

Property owners are concerned that people using the path will be gaining access to their property, which could be a problem of privacy, noise, theft, or more serious crime.

5.2 A Prime Candidate for Abandonment

Traditionally, rail abandonment decisions have focussed on the short- to medium-run economics of freight transportation. By traditional measures, the LVRC is a logical candidate for abandonment and there is no need to use the LVRC corridor for freight transportation. The LVRC has had essentially no freight traffic for eight years. The line has been split by the removal of the bridge over Route 15 in East Walden, and several portions of the line are impassible because of washouts. A survey of potential shippers failed to identify any customers that would use the line, even if it were currently able to handle the traffic, and no shippers spoke of the need for rail freight service at the public hearing held on April 10th in Morristown.

5.2.1 Lack of Local Traffic

The LVRC has historically been a bridge line, with few customers located along the line. To illustrate this point, consider the extensive studies conducted by the United States Railway Association at the height of the northeast rail crisis [Secretary of Transportation, "Rail Service in the Midwest and Northeast Region", February 1, 1974]. That study examined rail traffic originating and terminating at locations throughout the northeastern United States in order to determine which of these locations had enough traffic to justify rail service. The study then determined which lines were needed to serve the points recommended for service and which lines were "potentially excess". In northern Vermont, 17 locations were recommended for service, including 4 served by what is today the LVRR (Exhibit 3). These 4

stations - St. Johnsbury, Swanton, Sheldon Springs, and Sheldon Junction - are all at or close to the ends of the line. The report identified then rest of what is now the LVRR line (the line from Sheldon Junction to St. Johnsbury) as "potentially excess".

Exhibit 3
Rail Traffic Volume In Northern Vermont in 1972
(Source: "Rail Service in the Midwest and Northeast Region", 1974)

St. Johnsbury	5,776	annual carloads
Swanton	789	
Sheldon Springs	698	
Sheldon Junction	129	
Total, LVRR stations	7,392	
Other stations recommended for service in Northern Vermont	30,594	
Traffic in stations not recommended for service in Northern Vermont	5,676	
Total traffic in Northern Vermont	43,662	

These numbers do not take into account bridge traffic, e.g. traffic from Montreal that might pass through Vermont en route to New Hampshire. Nevertheless, they indicate that rail traffic originating or terminating on the LVRR route was very low except at the ends of the line even 25 years ago, when truck competition was much less prevalent than it is today.

5.2.2 Poor Potential as a Bridge Route

It might be thought that the LVRR could be needed as a bridge route, even if it is not needed for originating or terminating traffic. The location of the LVRR, however, makes it an unlikely candidate for any significant amount of bridge traffic. Its most obvious role is to link northern New Hampshire and Maine to Montreal and southern Canada - and these regions are too close to generate much rail traffic, as they can be efficiently served by truck. Even if shippers want to use rail, there are competing rail routes of approximately the same length that are in better condition and that are still being used for freight service. As a result, there is no clear bridge market for the railroad.

A large part of the railroad's problem relates to the geography of Vermont. On a map of Vermont, the LVRR appears to fill an important gap in the rail network by providing an east-west rail route across the top of the state. There are two problems with this perspective: the size of Vermont and Lake Champlain. Vermont's small size means that it is far too small to support its own freight network, so that the Vermont railroads are but a small piece of the North American rail network and a dense network is unnecessary. Second, Lake Champlain blocks the west end of the LVRR and cancels whatever advantage the LVRR might otherwise have in connecting to the lines to the west. Traffic must divert well to the north or south to avoid Lake Champlain, so that the LVRR route becomes redundant when compared to the other routes that continue to be utilized.

5.2.3 Abandonment Process

Abandonment is clearly an important options for some or all of the LVRC. Some consideration of how abandonments typically proceed will indicate the nature of the options that are available.

In a light density line analysis, the key factors are the length of the line, the availability of alternative routes, and the annual traffic volume. For a line like the LVRC, the first step toward abandonment would be to eliminate an intermediate section of track where there is little or no traffic and to serve the remaining sections from the opposite ends of the line. Then, if traffic continues to decline, abandon additional segments.

When the line is first broken, the basic tradeoff concerns the additional operating costs of moving some traffic a longer distance as compared to the savings in track maintenance and branch line operations. Once the line is broken, the chief concern in subsequent abandonment decisions is whether or not the railroad's share of the revenue from shipments to and from the end of the line is enough to cover the costs of operating on the branch line as well as the mainline.

5.2.4 Minimal Required Traffic Levels

There is no easy way to determine the minimal traffic levels required to support a light density branch line, as the economics depend upon prices that shippers are willing to pay and the costs that are incurred on the mainline as well as the costs incurred on the branch line. At one time, the Interstate Commerce Commission used a rule of thumb that a railroad could without question abandon any line where the traffic volume was less than 30 carloads per mile per year;

lines with higher traffic could also be abandoned, but the burden of proof was more difficult for the railroad. For a 50-mile branchline - i.e. roughly the distance to Morrisville from either end of the LVRR - this criteria would allow abandonment for annual traffic less than 1,500 carloads/year. This is far greater than what has been handled by the LVRR at Morrisville or any other internal point on the line.

5.2.5 Traffic Volumes Required to Cover Track Maintenance Costs

As noted above, the ICC's guideline of 30 cars per mile was used to identify situations where a line clearly should be abandoned. The actual volume required for profitable operation would usually be several times higher.

The basic problem with the operation of light density operations is that there is no reliable source of funds to provide the necessary maintenance to the line. Even if there is no traffic, maintenance is necessary to keep the line in usable condition. Wood ties deteriorate, heavy rains or snow-melt will cause washouts, and brush will grow along the ROW. Spot surfacing, brush removal, and periodic tie programs will therefore be needed in order to keep the line operable. The Vermont Rail Feasibility Study estimated these expenses to be on the order of $10,000 to $15,000 per mile per year, which would be on the order of $1-1.5 million annually for the entire line. The rails will last a very long time, but they cannot be used if the ties and ballast are not maintained.

These routine maintenance costs are a major impediment to keeping the line open for freight. For example, if the price of each shipment were high enough to generate $100 toward track maintenance on the LVRR (a doubtful proposition), then it would take 10,000 loads to generate the minimum of $1 million annually for routine maintenance. 10,000 loads plus the associated empty movements would amount to approximately 1 million gross tons per year, which is far more than the LVRR has seen in many years, but still a very low density rail operation. By way of comparison, typical mainline operations in the U.S. and Canada today are in the range of 20-50 MGT per year, with the highest density lines exceeding 125 MGT.

Covering track maintenance costs is also a problem for passenger service. Even with 30,000 passengers (as projected in the Snyder proposal), the minimum track maintenance cost would be more than $30 per passenger for the entire line. If the excursion were to run over a stretch of, say, 20 miles, then the minimum cost would be a

more manageable $200,000 and the cost per passenger would be approximately $7 - which is still close to the typical excursion fare of $10. Hence, excursion service might be able to support a 10- to 20-mile stretch of the railroad, but nothing close to the whole line.

5.2.6 Potential for Innovative Approaches

Earlier sections have concluded that traditional rail service (freight or passenger) cannot be considered the "highest and best use" of the LVRR right of way, as there is little or no possibility that these uses could be profitable in the short term or the medium term. To argue for continued use of this corridor for rail operations, it is therefore necessary to change the traditional arguments.

The need to conserve energy is often cited as a reason to preserve rail service. Conceivably, an energy crisis could revive rail, but there is no indication that such a crisis is imminent or that it would be sufficient. The state acquired the line at the height of the most recent energy crisis, when gasoline jumped from approximately $0.30/gallon to well over $1.00/gallon - a 3-400% increase that clearly was not enough to save the railroad in the 1970s.

Either a new way of looking at state financing of transportation or innovative approaches to rail operations must be identified to justify continued use of the railroad. The question of public finance is well beyond the scope of this study, although many people argue that subsidies to highway users exceed the subsidies that would be necessary to maintain rail services.

The question of innovative operations is also beyond the scope of this study, although various options are discussed elsewhere in this report. In general, innovation could relate to the following:

a. Connectivity - use of the right-of-way to provide connections with other networks and to provide connections among activity centers along the corridor.

b. Use of innovative vehicles on the rail right-of-way (e.g. high rail buses for public transportation).

c. Community involvement and a public decision to invest in rail to retain or enhance development potential.

Mentioning the possibility of an innovative use of the line does not mean that the railroad can or should be maintained. The point to understand is that the railroad cannot and should not be maintained <u>unless</u> innovative thinking and cooperation can provide the necessary resources.

5.2.7 Summary

The facts of the situation can therefore be summarized as follows:

a. The LVRR has had essentially no freight for 8 years.

b. It has not had more than 10,000 carloads per year in at least 20 years.

c. When the railroad did handle a substantial volume of traffic, most traffic originated or terminated at the ends of the line.

d. Other than at the endpoints, the line has never had sufficient originating or terminating freight traffic to support rail operations.

e. Other than at the endpoints, the line serves no major metropolitan areas with sites suitable for industrial development that are also readily accessible to the interstate system.

f. The line has no unique advantages as a bridge route. It is a redundant route with high grades and many sharp curves that offers no benefits relative to competing routes.

Taken together, these facts indicate why the LVRC has been unable to attract traffic. The loss of traffic on the LVRR cannot be viewed, as some have suggested, as a marketing problem of the current or prior managements. The decline of the LVRC reflects the regional decline in rail service, the national trend toward consolidation of the rail network, and the nationwide rise of trucks as competitors to railroads. The LVRC has no traffic because that traffic moves as well or better via highway or other rail routes.

In any freight market, especially where distance are short as in New England, the overriding factor is that trucks are better than rail. They are faster, more reliable, and often cheaper for medium- as well as short distance shipments. Railroads are more efficient only for the long haul, bulk traffic.

It is impossible to conclude that rail freight operation is the "highest and best use of this line" in the near term, and it is difficult to see how the line could attract enough traffic for profitable freight operations even in the medium term. From a rail freight perspective, most of the line is a fine candidate for abandonment.

5.3 Criteria for Evaluating the Options for Each Segment

A simple weighting scheme was used to indicate the attractiveness of the various options for each of the six segments defined earlier. Rankings were applied to each segment of the railroad according to their suitability as a rail freight operation, rail passenger operation, trail, bike path, or snowmobile trail. The following criteria were used, with a lower score indicating greater suitability. This is a relative weighting scheme designed to show which options are best for each segment.

Freight:

1 - Existing companies with more than 500 loads/year (10+ cars/week)

2 - Existing companies with 100-500 loads/year (2-10 cars/week)

3 - Existing companies with 1-100 loads/year (up to 2 cars/week)

4 - Existing companies expressing an interest in using rail if service were improved

5 - Existing industrial parks suitable for locating industries desiring to use rail

6 - Existing industrial parks, but not likely to be suitable for locating industries desiring to use rail

7 - At best, very limited potential for rail freight traffic

Passenger:

1 - Demonstrated demand for excursion services or other passenger services

2 - Residential or visitor base that might support excursion services or other passenger services

3 - Residential or visitor base that might support other passenger services

4 - Possible through route for visitors from Canada

5 - Very limited potential for passenger service

Trail:

1 - Demonstrated demand for walking, hiking or skiing

2 - Residential or visitor base that might support use of train

3 - Natural features that might attract visitors to the trail

Bicycle path:

1 - Demonstrated demand for biking

2 - Residential or visitor base that might support a bike path

3 - Natural features that might attract visitors to a bike path

Snowmobile trail:

1 - Demonstrated demand for snowmobiling and a clear addition to the existing VAST network

2 - Demonstrated demand for snowmobiling, with a more direct route between towns

3 - Demonstrated demand for snowmobiling, with a modestly more direct route between town

4 - Non-residential areas might be attractive to snowmobilers, but other trails are in the area

X - Residential area unsuitable for snowmobiling

The criteria applied to each of the six major segments of the railroad are described in the next section.

5.4 Applying the Criteria

St. Johnsbury to E. Walden (Milepost 0 to 22):

Freight: industrial possibilities in and near St. Johnsbury (4)

Passenger: possible excursion services; recreational service to Joe's Pond (2)

Trail: visitor base in St. Johnsbury, but the trail would not come to the center of the city; views to White Mountains and to Green Mountains (3)

Bicycle path: visitor base in St. Johnsbury; link to Joe's Pond (1)

Snowmobile trail: other trails are in the area

East Walden to Hardwick (Milepost 22-36):

Freight: there is an industrial park in Hardwick, but no companies that are potential rail customers (6)

Passenger: this is not a good candidate for any kind of passenger or excursion service (5)

Trail: possible link to Joe's Pond (3)

Bicycle path: the towns of Hardwick, Greensboro, and Craftsbury already have indicated strong interest in establishing a bicycle path that could, in part, follow the route of the railroad; also, this is the only part of the route where the railroad, because of the sharp bend, offers a loop in connection with a short ride on the highway (1)

Snowmobile trail: other trails are in the area (4)

Hardwick to Morrisville (Milepost 36-49):

Freight: industrial park in Morrisville (but probably not suitable for companies that would be large users of rail) (6)

Passenger: Morrisville has been the major terminal for excursion trains in the recent past; possible link between Morrisville and Wolcott and Hardwick (1)

Trail: proximity to Stowe provides a potential user base (2)

Bicycle path: proximity to Stowe provides a potential user base (2)

Snowmobile trail: Wolcott to Hardwick (2); portions of the route in Morrisville are residential and may be unsuitable for snowmobiling (X)

Morrisville to Cambridge Junction (Milepost 49-64):

Freight: industrial park in Morrisville (but probably not suitable for companies that would be large users of rail) (6)

Passenger: Morrisville has been the major terminal for excursion trains in the recent past; possible linkages between Morrisville and Hyde Park, Johnson, and Jeffersonville (1)

Trail: the Long Trail crosses the LVRR and Route 15 in this portion of the line, offering a crossroads effect for hikers; also, proximity to Stowe provides a potential user base (1)

Bicycle path: proximity to Stowe provides a potential user base (2)

Snowmobile trail: portions of the route in Morrisville are residential and may be unsuitable for snowmobiling; other trails are in the area (4)

Cambridge Junction to Sheldon Junction (Milepost 64-85):

Freight: existing logging operations that could use rail (4)

Passenger: possible through route for visitors from Canada (4)

Trail: pretty route through valley (3)

Bicycle path: pretty route through valley (3)

Snowmobile trail: East Fairfield to Sheldon Junction (1)

Sheldon Junction to Swanton (Milepost 64-85):

Freight: industrial opportunities in and near Swanton (4)

Passenger: visitor base for possible excursion trains; also on route from Canada to Stowe (2)

Trail: connects to existing bike path (1)

Bicycle path: connects to existing bike path (1)

Snowmobile trail: Sheldon Junction to Highgate Center fills a gap in VAST (2)

Exhibit 4
Evaluation of the Potential Uses for Each Segment

Segment	Freight	Passenger Excursion	Trail	Bike	Snow-mobile
St. Johnsbury to E. Walden	4 P	2	3	1	4
E. Walden to Hardwick	6	5	3	1	4
Hardwick to Morrisville	6 P	1	2	2	2 P
Morrisville to Cambridge Jct.	6	1	1	2	4
Cambridge Jct. to Sheldon Jct.	4	4	3	3	1
Sheldon Jct. to Swanton	4 P	2	1	1	2 P

5.5 Discussion

Exhibit 4 summarizes the potential uses for the corridor. For freight, there is little potential anywhere along the corridor. The most likely prospects are at the ends of the line, where there are areas zoned for industry that are large enough for traditional rail users; these locations also have the largest population base on the line and enjoy the only direct access to the interstate system. The only other prospects would be the potential for using existing facilities in Cambridge or in developing the industrial part at Morrisville or Hardwick, but these are lesser possibilities.

For passenger service, the critical area is centered on Morrisville. This location has had excursion operations in the past and, with the proximity to Stowe, a ready source of visitors. Morrisville is also the obvious center for public transportation within Lamoille County; the railroad could play a role in providing transit services among the towns along Route 15.

The entire route could be attractive as a trail for hiking or skiing, but two segments stand out. First, the Swanton to Sheldon Junction segment would link up with the existing trail on the former rail route from St. Albans to Sheldon Junction. Second, the intersection with the Long Trail in Cambridge offers the possibility of a crossroads effect that would make both routes more attractive.

The entire route could also be attractive as a bike path. The ends of the line are attractive because of the population and visitor bases, and there are already proposals to make the Hardwick to Greensboro segment into a bike path. The sections either side of Morrisville would link up with the route to Stowe.

While the entire route might well be attractive to snowmobilers, snowmobilers would not be equally welcome along the route because of the noise and the risk of accidents. There is one section (Sheldon Junction to East Fairfield) that would fill in missing links in the VAST network and two that would offer somewhat more direct routes between towns (Wolcott to Hardwick and Sheldon Junction to Highgate Center). Much of the rest of the line that is not in residential areas might well be suitable for snowmobiling.

5.6 Summary

The highest and best use of the line is recreational rather than industrial. With exception of short sections at each end of the line, there is at best a very minor potential for freight under current conditions. Passenger operations are a better possibility, especially for the portion of the line centered on Morrisville, but it is not clear that passenger operations will be profitable enough to cover long term maintenance of the line. A major change in the competitive balance of railway and highway operations and costs would have to occur to modify these general conclusions.

6 Economic Context

The LVRC should be considered in the context of economic development for northern Vermont. The railroad has had and will likely continue to have great difficulty operating based upon traditional practices. However, it conceivably could play an

important role in the overall economy, which might justify additional public or private support for the railroad. Given the character of northern Vermont, the two obvious possibilities would be the tourism and forest products industries. Investment in the railroad could be viewed in the same light as investing in highway access to a major ski area or in creation of an industrial park.

6.1 Tourism

Tourism is a major portion of the economy of northern Vermont, Vermont, and New England. Lodging and recreation, both of which are related to tourism, each account for a sixth of the total receipts in Vermont's service industries. In recent years, tourism has been increasing, as indicated by rises in meals and alcohol receipts (2.8% annually), lodging occupancy (3.7%), welcome center counts (12%), state park attendance (6.1%), state campground usage (4.9%), and museum and travel attraction attendance (7.3%).

Tourism is a highly competitive industry, and northern Vermont competes with the rest of Vermont and northern New Hampshire, which have similar tourist opportunities. The factors affecting tourism include the following:

a. Attractions

   Natural scenery

   Outdoor recreational opportunities (hiking trails, sports facilities, etc.)

   Cultural attractions

   Tourist attractions

b. Visitor services

   Lodging (motels, inns, bed & breakfasts, campgrounds, resorts)

   Restaurants

c. Accessibility

   Highway access to the region

   Road network within the region

   Airport access

   Rail access

d. Proximity to population centers

   Year round residents

   Summer residents

   Nearby metropolitan centers

For example, the LVRR corridor can be compared to central Vermont and the White Mountain region of New Hampshire. A very rough comparison of these regions is shown in the following exhibit.

Exhibit 5
Relative Attractiveness of the Lamoille Valley, Central Vermont, and White Mountain Regions

Tourism Factor	Lamoille Valley	Central Vermont	White Mountains
Attractions			
Natural resources	2	2	1
Attractions	3	2	1
Unspoiled rural scenery	1	2	3
Visitor services	3	2	1
Accessibility			
From Montreal	1	2	3
From Boston	3	2	1
From New York City	2	1	3

In general terms, the Lamoille Valley lacks the dramatic mountain scenery of the White Mountains, has fewer attractions than either the White Mountains or Central Vermont, and is further away from the major population centers of the Northeastern United States. Its major advantages are proximity to Montreal and Canada and, for some, retention of the classic New England rural character.

The non-freight options for the LVRR would all enhance the tourist potential of the region. Passenger excursion trains or transportation paths would both provide a solid attraction for the region that could attract new visitors, encourage visitors to stay for a longer period of time, and provide additional recreational opportunities for permanent and seasonal residents.

6.2 Forest Products Industry

Much of northern Vermont is located within the great northern forest that sweeps across upstate New York and New England. To a great extent, the rail network of northern New England was built to serve the forest products industry, and paper and lumber have traditionally been among the major commodities handled by the New England railroads.

Within the last few years, a world-wide slump in the forest products industry has hurt producers in New England and nearby Canada, which has affected all of the transportation carriers serving these industries. More serious from the perspective of the rail industry is the shift from rail to truck. Many moves that historically went by rail now go by truck, largely because heavy trucks operating over the interstate highway system are much faster, more reliable, and often cheaper than the competing rail service.

There is an on-going debate concerning the uses of this forest. Among the issues being debated are:

Preservation of more wilderness area

Restricting logging to allow more recreational use of the land

Reduction in the use of clearcutting techniques

Maintaining the integrity of the forest (i.e. limiting development)

Maintaining employment in logging industry

Maintaining a role for the small woodlot

Modernizing the paper mills in the region

Limiting the number of large trucks on the rural road network (to avoid damage to the roads, limit congestion in towns, and to reduce the number of heavy, slow log trucks on the roadways)

It is conceivable that the railroad could be a factor in part of a larger strategy to promote the forest products industry in northern New England that is related to the highway, clear-cutting, small woodlot issues. For example, a "sweeper" service could be run by the railroads to pick up logs or pulp wood on a regular schedule. Independent loggers and cooperatives could concentrate on moving logs and pulpwood to the nearest pickup location, reducing their time and the usage of highways for moving these products to the mills. The added benefits to the community in terms of road maintenance, congestion, and average speed on the rural roads might justify some support for the rail service.

7 Summary and Conclusions

This study reviewed some of the history of the Lamoille Valley Railroad along with its prospects for growth. The study considered the location of the line within the broader rail network and its potential importance as part of a through route between major population, industrial, or natural resource centers. The study also reviewed information concerning

industrial activity along the corridor in order to assess the potential demand for rail transportation to and from points served by the railroad.

A fundamental conclusion is that there is very limited potential for continued freight use of this corridor. It is conceivable that some innovative operations could generate traffic, but this would require a new approach to light density rail operations.

For rail freight, in general, the overriding factor is that trucks are more efficient for short haul, general merchandise traffic, while railroads are more efficient only for the long haul, bulk traffic. That is why the rail network has been shrinking for so long. The problems with the LVRC as a freight railroad are three-fold:

a) **No local traffic:** the railroad has had no local traffic in recent years. The asbestos and talc industries that once contributed significantly to the line's traffic base are now gone and unlikely to recover.

b) **Low development potential:** there is little potential for development along the route, as there are more attractive development sites at either end of the corridor that are closer to the interstate highway system and to the major US and Canadian rail networks.

c) **Not a viable bridge route:** the railroad's potential as a bridge route is very limited, because of its position in the international rail network.

The line also has very low potential for intercity passenger or commuter service. The route does not serve any major metropolitan centers, nor is it on the shortest rail path between any major metropolitan centers. None of the towns served by the line are large enough to support commuter rail operations.

There are better possibilities for excursion operations and tourist rail services. However, it is unclear whether these services would be profitable enough to support any substantial portion of the line. For excursion services, typical distances are on the order of 5-25 miles, and network linkages are less essential than in intercity passenger or freight. The key for excursion services is to have stations in activity centers that attract tourists and to have attractive scenery to view. Morrisville, with its station close to the highest mountains in the state, is an obvious point for excursions, although excursions could also be run out of either end of the line. Linkages to Amtrak in Swanton or to the excursion roads in Northern New Hampshire (in St. Johnsbury) might also be possibilities.

Although there is a need for some immediate repairs, the line is for the most part in reasonable shape for low density operations. It is our understanding that federal funds are available to repair recent flood damage to the line, so that there is not an immediate concern about spending significant amounts of state money to restore the line to operating condition. What is needed for continued rail operations is a consistent financial basis for maintaining the line. Successful excursion operations will be able to support routine maintenance of short (10- to 20-mile) stretches of the line, but certainly not of the entire line.

According to traditional methods of analysis, the line is a solid candidate for abandonment. The normal procedure would be to break the line in the middle, and abandon segments toward either end. The rail and other track material could be salvaged as scrap metal for something on the order of $15,000 per mile (higher if the rail could be re-used elsewhere).

For the near future, it may be premature to abandon the line. While it is clear that the potential for freight traffic has been declining and will very likely continue to decline, the potential for passenger excursion operations is high for some portions of the route, especially near Swanton, Morrisville, and St. Johnsbury. Also, the state already owns the line, and the planning commissions for the three regions served by the line have expressed strong support for the continuance of rail service. Under these conditions, deferring abandonment for a few years to allow additional time to develop innovative rail services makes sense.

The highest & best use for the LVRC would appear to be as follows:

Short run (1-5 years, or until such time as major line rehabilitation is needed):

a. Seek federal funding to repair the recent flood damage that occurred between Hardwick and Swanton. In general, ensure that the necessary minor maintenance is done to enable a minimal level of service over this portion of the line.

b. A serious effort should be undertaken by the current operator to demonstrate the potential of the line as a tourist railroad, including the possibility for regularly scheduled tourist runs, foliage and other special excursions, and ski trains.

c. Efforts to promote freight traffic should be focussed on the ends of the line and a limited number of nearby points, as it is not credible to promote interior points along the line as attractive locations for customers dependent upon rail service.

d. Between Swanton and Hardwick and between St. Johnsbury and Joe's Pond, the rail should be left in place to allow for the possibility that innovative freight and passenger services could be developed over the next few years. Between Hardwick and Joe's Pond, the line is already broken and taking up some portions of the rail may be justifiable. For example, it may be necessary or desirable to take up some of the rail in some special locations (e.g. on or near bridges or grade crossings) as part of the process of creating a safe bicycle path along this part of the right-of-way.

e. Portions of the line that are not used for rail service should be embargoed for freight. These portions of the route should be made available for hiking, skiing, and (where appropriate) snowmobiling.

f. Within urban areas where there is no longer any rail service, begin to convert the right-of-way into a transportation path, either with a paved, gravel, or natural surface depending upon the desired uses.

Medium term (5-30 years, or until such time as it is clear that there is no future need for rail service)

a. Continue to provide passenger and freight rail service, but so long as the operator is able to secure a consistent source of adequate funding (from revenues or from public agencies) to cover operating costs and to maintain the property.

b. Abandon any significant portions of the line that are not utilized for freight or passenger service. Salvage the rail and other track material unless a clear case can be made to demonstrate the benefits of leaving the rail in place.

c. Expand and improve the transportation paths and provide better linkages to area services and attractions.

Long term (30+ years)

a. Preserve the rail line only if funding can be secured to cover the steady state maintenance costs as well as the operating costs; otherwise, abandon the railroad and salvage the rail and other track material.

b. Expand and improve the transportation path and provide better linkages to area services and attractions.

c. Preserve the right-of-way in order to provide transportation and right-of-way options for future generations

Vermont Legislative Joint Fiscal Office

Vermont Rail Link Proposal

Letter Report

Our analysis of the Vermont Rail Link Business Plan consisted of several basic steps. First, underlying the validity of the plan is the validity of the passenger and freight market that is driving it.

Our second key effort was to examine the size and distribution of the various expense and revenue items on the business plan, the various year's pro-forma income and expense statements and determine the stated plan is a likely outcome of the proposal.

Meanwhile, other issues surfaced during the review and investigation of this proposal that may render further questions about the validity of any operator securing a clear and legal right to operate the line, let alone develop a sound business plan around the assumptions, and these complications appear to equally affect the rail or trail proposal.

THE PROPOSER

Stone Consulting & Design, Inc. (SC&D) was asked to review only one proposal – that submitted by Vermont Rail Link. The names of other proposers or railroads interested in the process or that were notified is not known; however the score sheets submitted indicate that this proposal was superior to all others and that others had been submitted to the formal scoring process. SC&D did not review the trail proposal that has been offered as an alternative use of the corridor.

Mr.'s Snyder and Worthen adequately presented their backgrounds and experience. We are satisfied with their general knowledge and understanding of both shortline and freight railroading and impressed with their ability to communicate through both the written proposal and the verbal interview process. Their qualifications and experience compare favorably with the typical shortline tourist rail proposals we have reviewed.

Comments made in the operator interview disclosed that no other "operating railroads" had submitted an interest in this line and that there was some question as to just why not – this was asked of the Vermont Rail Link. After verifying some potential freight business on the line ourselves, we investigated further, particularly when some business is so close to the existing NECR connection. Some interesting events have transpired.

LEGAL ISSUES

Our investigation discovered a very unusual situation in the legal status of this line with the Surface Transportation Board (STB). Apparently, the Lamoille Valley Railroad Company (LVRC) had filed the line for abandonment in 1999 and been refused, as they were not providing service. Furthermore, a subsequent appeal to that decision in May of 1999 in partnership with the State of Vermont had also been denied due to the fact that STB abandonment procedures had not been followed[1]. No subsequent decisions about the line were found resolving this status. It would appear that LVRC is still the latent operator in the eyes of the STB, or at least controls the termination and abandonment procedure. This appears to be purely procedural complication, but also completely relies on the LVRC to follow that procedure and that Vermont cannot reconcile it by itself.

Apparently, the line is in true "catch 22" limbo, with neither the LVRC nor the State of Vermont in position to fully resolve the actual (or future) operator status. It would appear that no abandonment can actually take place unless LVRC is in the legal position to be the operator, then file the required abandonment notice and then be terminated; and that they, not the State of Vermont essentially still control that process as the operator. This would appear to continue to place the LVRC in some role as a spoiler in this status, although only a full legal opinion would suffice in this matter and we cannot provide legal advice. The STB has granted the State of Vermont full appellant status in the last hearing, but LVRC still apparently holds some legal control to delay or block any further operator assignment under this RFP or, in theory, even resume operations themselves. There remains a question on just who controls the railroad, and nothing appears on the STB web page since 1999 on this case. The STB concluded that the railroad was capable of filing through normal procedures and they had not done so, apparently not to date. The issue was not whether the line was to be abandoned, but how this process was to be followed and until it was, LVRC was still the operator in the eyes of the STB.

This would be all but an interesting historical footnote if it were not for the fact that this may hold the State of Vermont in check for recovering certain property, repayments or rights necessary for the new operator or that it may have effectively discouraged any other rail companies from replying under the RFP, or even prevent trail conversion. We found it to be very curious that the two largest freight shippers at the far west end of the railroad were not being offered freight services via the "abandoned" LVRC line, apparently due to the issue of exactly who controls the trackage. Providing service via the New England Central Railroad (NECR) would have appeared to be an obvious, yet missing, solution. In some cases that Stone Consulting has participated in, it has been most practical for the successor railroad to actually 'purchase' the previous company name and responsibilities to expedite this filing and conversion process.

This will continue to be an issue over any proposed further use of the railroad, be it rail or trail, and will be an impact on this decision-making process. If any resolution has been made to this unresolved issue, it was not clear at the time of this report. We would suggest that fully

[1] STB: www.stb.dot.gov; docket FD 33709 0; modified certificate of public convenience and necessity

resolving this operator rights issue would greatly clarify the property situation for the proposed trail use. It would also make it much more viable as a rail freight property from any number of potential "operating railroad" proposers that were either familiar with the legal complications and did not bid, or were not aware of the opportunity as it was advertised.

Subsequent to the initial publication of the draft report, it was brought to our attention that VDOT is continuing to negotiate with LVRC regarding these issues and that a solution, though not currently in place, is being addressed through ongoing negotiations.

THE BUSINESS PLAN

Passenger Excursion Market

Historic data is publicly available from the Federal Railroad Administration (FRA) of all railroads that provide passenger service, including excursion railroads. Raw ridership data by month is required to be filed to the FRA along with employee hours, locomotive miles, etc. This compilation acts as the national denominator for rail safety statistics including accidents per train mile, employee safety, etc. It is also very useful for researching excursion train markets and performance. This data is not flawless, as there is virtually no audit procedure and it is submitted by the railroads themselves, but it is generally considered to be the "best available" public data on tourist railroad performance over the last ten years.

The 1991-1994 performance of the LVRC was obtained and showed that the railroad was experiencing dramatic passenger growth during the final two years of operation (see attached graphs). While it is in no way clear what the total potential ridership may have become at Morrisville, it is clear that the ridership was growing and that the fall foliage market in particular was very strong, not unlike most Northeast tourist railroads. In fact, most excursion railroads in the Northeast see between 45 and 60 percent of their total annual ridership between mid-September and October. Because of geographic position, Vermont tends to peak foliage earlier than say Pennsylvania, so a combined September/October percentage is more accurate for comparison purposes than a pure October-only might be elsewhere.

We also used the ridership analysis of the Green Mountain Railroad (GMRC) in Bellows Falls as a reality check on the performance of regional excursion railroads. GMRC has been a diesel-powered excursion railroad in Vermont over the last decade, is relatively well known, is regionally marketed and while not necessarily in a destination market, is well positioned on I-91. GMRC's ridership has been ranging between 25,000 and 34,000 over the last decade and has reached a plateau at this level. This is a relatively realistic and rather typical performance from a railroad that would be very similar to the LVRC in appearance, ride type and visitor appeal.

Direct potential market comparisons drawn to the Conway Scenic Railroad are perhaps exaggerated, as the Conway Scenic is now a mature operation in a rapid growth market, some of which it has created. The railroad now hosts two short-distance trips (one steam powered) and an all-day excursion up to Crawford Notch, a truly spectacular trip. It is a well-run, very profitable passenger-only for-profit corporation, perhaps one of a dozen in the United States that actually makes significant for-profit money purely in the tourist railroad business with no freight

It would appear that FEMA funding for washout repairs was already rejected due to the fact that the railroad was not in operation when the flood hit. This decision was not appealed. This is similar to the experience in the Adirondack, but it eventually worked to its advantage in obtaining TEA-21 funding as FEMA was clearly not an option at that point.

Most shortline railroads are rehabilitated through state transportation programs, not federal, as direct grants and it is likely that the state will bear the brunt of this program though some federal assistance would certainly be appropriate. Therefore, any representations that the state will likely be held to no more than the 20% match are suspect.

The bank letter stated that the SBA loan process could not be started without the award lease of the railroad from the state. It is difficult to determine whether or not the existing documentation/proposal package submitted to the state would be fully adequate as a due diligence document for SBA loan determination, or what the maximum amount of the SBA loan would be. The letter submitted from the bank is an acknowledgement, not a commitment, by any definition, and simply a statement that they would not do more without a lease. While there is a well-done series of pro-forma income and expense statements, the companion pro-forma balance sheets that are typically part of such a proposal were not included and apparently were not requested in the state RFP for this proposal. This is important to show the total sources of working capital at startup, their sources, and how, over time, the debt is to be paid down and what is assumed to be a fair equity "profit" on the part of the investors.

If the State of Vermont does accept the proposal, the next financial review will be the due diligence of the bank for the SBA loan, and that due diligence may very well result in rejection of the plan and capitalization without substantial changes or without further commitments in the track rehabilitation package. A loan may be granted, but for a much smaller amount that provides inadequate working capital. Furthermore, the legal operator status of the railroad and the lease may complicate this SBA due diligence review and return the process back to the state for resolution. If the loan is granted, it would be appropriate to require that those funds designated for capital improvement on state property (such as the $50,000 item for the Morrisville engine house) be placed in joint escrow to assure these items are addressed.

Taken in whole and in total, we find it unlikely that this total funding package of $4.5 million rehabilitation plus adequate working capital to cover the initial losses can be raised exactly as described. Much of this initial working capital program is a complete leap of faith by everyone involved and is credit-based. But if the working capital is obtained, and the program gains acceptance, then Vermont will become the ultimate source of later capital funding. The State of Vermont should NOT accept this proposal if they are not willing to accept that they, not the federal government, may well become the most likely source of the $4.5 million capital track/corridor rehabilitation funding over time.

This is by no means unusual. Our typical review of shortline railroads for freight and passenger service assumes that the owning entity (state DOT, local authority or county) ultimately often bears the brunt of capital repairs and improvements. The assumption is, however, that the operator must have adequate income to maintain the railroad to an operational standard after the capital repairs are complete and that the operator is also solely responsible for their own

operating and working capital as a risk venture. The state must, however, recognize the at-risk investments by proposers and investors to justify profits to be distributed even if grants have been made to preserve state property.

The pro-formas essentially expensed the "profit" by the proposer as an item in administrative costs; i.e. their salary. It is debatable whether this is accepted accounting procedure, but it would also appear that there is actually more 'cushion' in the pro-forma than would have initially appeared due to the fact that the proposer's fee/salary is actually in administrative costs, or that the proposer has, at minimum. created both jobs for itself. Therefore, the "breakeven" pro-forma at year three actually includes a payment to the owners for services provided, if not a profit to be shared with potential stockholders. This is likely to be more of an issue with the SBA than the state at this point.

Repairs and upgrades to facilities that are not the property of the operator (such as repairs to the Morrisville engine house) become a point of negotiated debate directly in relationship to the length of the lease. It is unrealistic to expect the operator to invest significantly in a property where the normal term of an improvement loan is shorter than the lease, or where they cannot depreciate their improvements during the life of the lease. Basically, no bank will ever loan money for a 15-year improvement to a property that only has a 5-year lease. If the state insists on a shorter-term lease (or no extension terms), then they must be willing to either fund the improvements themselves or make a provision for depreciated value buyback to the satisfaction of the bank.

Of the shortline freight and passenger operations that have folded, nearly all failed either because of a catastrophic event or freight business closure on the line (that could not be foreseen), or failed to survive their first five years of operation due to woefully inadequate capitalization. Because of that, the lease should include a minimum acceptable level of working capital to be attained before final operations can begin, and by a certain date. The highly seasonal nature of tourist railroads makes them a fundamentally difficult business, and one where the entire year is basically determined in fall foliage – not completely unlike other tourism-based businesses in Vermont. Freight business, while much more stable based on a variety of commodities and customers, can be difficult to maintain when the environment is as difficult as Northern Vermont in winter.

Freight Operations

Freight services to Morrisville, and later as far east as Hardwick, allow Vermont industries to be reconnected to the outside world by rail. Even today, the Bordeau Bros. Mill in Sheldon is dependent on an NECR rail-to-truck transload (out of St. Albans) to deliver their inbound grain. Reconnecting direct rail will allow Vermont industries to directly connect to the national rail freight system and reach markets that are now too expensive to reach by truck, or decrease their cost to existing customers and suppliers that are now reached by truck. This can make a real difference to the overall profitability and competitiveness of certain industries and impact employment. The challenge is to analyze and verify these potential rail customers and determine if there really is a legitimate reason to assume that rail freight has a future here.

We discovered a substantial interest in freight service by verifying the interest letters in the proposal. Every shipper contacted verified the letters, their interest and, if anything, had seen increased interest in rail transportation since the time of the initial submission. This was a pleasant surprise that was not anticipated.

Across the board, we discovered that the on-line shippers had NOT been contacted by LVRC. If there actually was a shortline freight marketing program by them, it was not effective. They had no recollection of being actively solicited or approached during the previous operator's tenure. This adequately explained the total lack of previous freight business on the line, which is a major and key issue when reviewing this proposal. A 1993 agreement between LVRC and the State of Vermont directed LVRC for continued investment in the Washington County shortline (also operated by Forbes) with at least the perception to create a disincentive for any further attempts to resuscitate LVRC and allowed removal of some equipment, scrap rail and shop contents at Morrisville in exchange for continued investment in Washington County.

If anything, we feel that the freight business may be substantially understated during the initial years of operation and will grow to a 750-1,000 car/year plateau quicker than anticipated. This will change the dynamics of the railroad along with the demand to upgrade the track quicker to provide better service and to be year-round over the entire length of the opened line.

Track conditions on the line can be focused on to immediately repair the washouts and allow passenger equipment to be moved to Morrisville. Beyond that point, the railroad can function for much of the freight business as an "FRA excepted track" railroad west of Johnson in year one. Excepted track cannot be used for passengers or for hazardous materials, so this would impact any potential propane business. But the concrete, fertilizer, wood products and brick would not be affected and can be operated at reduced speed on excepted track.

Sidings are a significant issue. Some of the major customers will need sidings and cannot adequately load on the main line. While rail materials can be salvaged from the east end, it is more than likely that the state should prepare for requests for capital assistance by the shippers to construct new sidings, and this is apparently not included in the $4.5 million capital budget estimate.

Freight business at Sheldon and Highgate Center, along with the interchange to the west, will fairly well occupy a crew to serve this end of the railroad during a day. Assuming that freight services can be covered with the same unit and crew as running the passenger trains during the fall foliage crush is suspect. At that time of year, at least, both locomotives and two crews on two locomotives will absolutely be necessary because of low running speeds. It may be most viable to serve these west-end customers via an NECR operating agreement during winter months. If the railroad incorporates as a common carrier, however, then the full season obligation is assumed. No shipper contacted offered that they understood that the line would, or might, be closed in the winter – including Poulin Lumber at Hardwick.

The seasonal nature of the railroad is assumed in the initial years, and this runs in direct conflict to the assumptions on freight service and its need to be available all-year. The Phase II proposal explicitly states seasonal freight operation over that portion. The conflict is between assuming

the railroad is a seasonal passenger operation with some seasonal freight vs. a freight operation that keeps trucks off of the road. Since the publication of the draft report, it has been clarified that the primary shipper east of Morrisville, the pulpwood reload facility, may consider a truck-to-rail transfer closer to Morrisville and not require freight service east of that point through the winter. This is the apparent underlying reason for the Phase II intent of a seasonal snowmobile trail east of Morrisville. The Phase I section, Swanton to Morrisville, is intended to remain open for freight service on an as-needed basis during winter months.

Another key, unknown assumption at this point is what level of economic pricing can be negotiated for the NECR rate division. Until actual pricing and ratemaking takes place, it will essentially be unknown what level of rate division will be demanded, and if the total rate division package becomes competitive with truck. The facts are that nearly every customer wants rail, as long as rail remains competitive or at the "magic" 20% cost savings. Rate divisions, as shown in the pro-formas, do not seem to be unrealistic, but will vary significantly depending upon commodity hauled. There is substantially more revenue to be made from commodities such as brick, plastic pellets and chemicals than from low-value commodities such as pulpwood and grain, and an average per-car settlement does not take this into effect. It is also unclear at this point whether the new operator will operate as a switching terminal (setting a standard price per car) or attempt to participate in individual rate settlements. This customer and commodity mix in general looks to be on the low end with the possible exception of manufactured stoves and propane gas.

Subsequent discussion with Mr.'s Snyder and Worthen have indicated that the intent of the pro-forma rate divisions in the proposal was for NECR to actually be the freight carrier of record to the final customer and VRL to provide only a 'haulage' service for a per-car fee and not necessarily involve themselves or NECR in the typical rate-division conflicts inherent between two shortline railroads competing against each other for rate divisions. Stone Consulting has neither verified nor questioned this with NECR due to the sensitive nature of such business negotiations. Generally, we support this 'haulage' approach, though we would still recommend to have multiple haulage rates sensitive to disparities in commodity-level pricing.

Though many freight shortline railroads have attempted intermodal (truck trailer or container) operations, margins on these activities have been so small as to virtually wipe them off the shortline railroader's opportunity list. Equipment necessary to load, unload and handle intermodal equipment makes them a capital-intensive exercise and the per-trailer charges necessary to handle the cars over a shortline (vs. driving the same trailer to a regional reload terminal) makes it a poor competitive proposition. We do not support the suggestion or conclusion that "intermodal" container/piggyback activities will make a significant portion of future freight revenues on this line. Intermodal, as it applies to bulk material reload between truck and railcar, is an entirely different scenario, and these activities have been quite successful by shortlines as a breed.

Operations

Initial operations assuming two used locomotives is entirely reasonable. While much seems to have been made about the cost and usability of two $80,000, 40-year-old GP-type units, this falls completely within normal ranges in our experience, along with the assumption that you need two locomotives because one may be down for repairs.

What may be the true issue of operations is just how the freight *and* passenger business will be handled with one operating unit. Short-distance passenger excursions will command one unit on a daily basis during fall foliage, and the length of the railroad west will also demand a locomotive on a seasonal basis as well to handle freight. Our discovery was that most of the freight business was to the farthest edges of the railroad (both east and west) making a 2-3 day/week service necessary, along with the time necessary to travel will make it difficult to manage both freight and passenger operations with just one locomotive in service. We would suggest that a third locomotive, possibly even less expensive than $80,000, would be the most likely solution and that it would be stationed on the west end of the railroad. For the seasonal fall foliage peak, a locomotive could even be short-term leased from NECR.

Railroad Retirement

We questioned the entire validity of the proposal based upon what appeared to be a rather significant error in the understanding of the fundamental costs of railroad retirement, which is nearly three times as expensive as typical FICA+Medicare employer portions. Lack of understanding of this issue would indicate a rather critical lack of understanding in the entire proposal.

In the audiotapes, it was clear to us that their understanding was that the passenger corporation was exempt from railroad retirement, while the freight portion was not. In actuality, railroad operations in interstate commerce must be covered under railroad retirement, which effectively means the freight operations, and in practice this means that you cannot separate operating employees between passenger and freight in the same day's pay in a practical manner. Therefore, the typical practice is for two (2) operating corporations, one that effectively holds all railroad *operating* employees and a second that provides non-railroad *services* so that office employees, train guides, etc. not directly involved in railroad operations are not subject to railroad retirement but rather social security instead. This is a very typical approach by shortlines to reduce their exposure to this item. The net effect is likely more than 10%, but by no means the full 23.75% employer hit[4] that is feared and questioned by the state as a "fatal flaw" in the proposal. Simply stated, railroad employees involved in the general freight system must be paid through railroad retirement, and that most likely involves operating and track maintenance crews.

Supervision, management, gift shop, etc. employees not involved in "general system transportation" may not be eligible, depending on how the company is structured, but that may be subject to legal appeal and exact job function. Within the context of the audiotapes, we feel

[4] Railroad Retirement: http://www.rrb.gov/g34.html. Full definition of "Railroad Employer" may be found at http://www4.law.cornell.edu/uscode/45/231.html

that adequate knowledge was shown of this issue and that it is not necessarily a fatal flaw, though it is still significant enough to possibly justify another effort at a pro-forma revision/clarification and that a request for this would be entirely appropriate.

East End

We agree with the proposer that no interest in freight service was found toward St. Johnsbury. No local service customers saw the need for due-east connections; southern connections can be accomplished via either connection. Though "Phase 3" is shown to St. Johnsbury, there is no particular justification for doing it other than the fact it preserves a corridor. Historically, the LVRC ran east from Morrisville including the covered bridge and the view from the hill above Greensboro Bend. East of that, however, seems to be without support for passenger or freight purposes.

The conclusion, however, that the only way to preserve the rail corridor is by keeping it intact as a weed-grown railroad with rail in place is in question. Rail-to-trails legislation specifically uses the language "interim trail use" to preserve the possibility that a corridor may someday be reconverted to rail. This is specifically to preserve the rail transportation right toward land easements that would otherwise revert.

It should be of some comment that the George S. Mickleson rail-trail at Deadwood, SD (114 miles) was made by filling the space between the rails level with crushed limestone, leaving the rails in place yet allowing an immediate trail facility.[5] This only provides a true compromise to those individuals that fight the physical removal of the rail, yet do not necessarily contest the validity of the trail concept. In this case, some consideration has been made to reactivate a small portion of the trail immediate to Deadwood for tourist rail use but that has not yet been done.

However, it should also be noted that despite the intent and language of 'interim trail use', no converted rail-trail has ever been activated for rail transportation once converted to a trail to our knowledge. Stone Consulting has been involved in one such attempt in Armstrong County, Pennsylvania, where the reactivation of a trail-pending abandoned ROW would have reactivated a local coal mine, taken a projected 28,000 truck trips off of local roads and had strong local economic support for relaying the railroad. Resistance from national and regional trail interests was equally strong and the eventual compromise reached was to transload the coal via barge to another rail line on the other side of a river, leaving the proposed trail project unhindered. While this was a legitimate compromise in this particular project, it was indicative of the difficulty of the reactivation of a rail line once the trail process has actually started.

RECOMMENDATIONS

Part of this process involves an approval process by the Legislative Committee, and at this state it is most appropriate that the State of Vermont concern themselves with the overall viability of the project and the economic impact on the communities and state as a whole. To our surprise, we found that the underlying basic business assumptions of the railroad for both passenger and freight traffic are substantially correct (though not completely) as stated. We feel that the

[5] George S. Mickleson Rail Trail: http://www.gorp.com/gorp/resource/us_national_forest/sd/hik_bmic.htm

railroad stands a better-than-average likelihood that it can operate in a manner as generally presented in year three, i.e. a small profit or a break-even basis, as the sustainable plateau. This conclusion was reached by our own independent verification of the basic rail business in the area, reviewing comparable tourism markets and agreeing substantially with the arguments presented by the proposer. As this level of operations actually includes a salary/profit for the proposer and covers assumed debt service, the only question is as to whether or not any other investors will actually see any distributed profits and how long it will take to reach this level.

We were very skeptical about the possibility of the project succeeding where a previous shortline railroad had already failed. After our investigation though, we discovered substantial evidence that the previous operator had not pursued the freight business effectively at all and that he was just beginning to discover the potential passenger business when the line closed due to flooding. We have concluded that the lack of success in the freight effort was directly traceable to LVRC's own policies and management, not necessarily the underlying business situation, and that the passenger business never developed far enough to discover its own potential.

Requested projected financial information, while certainly voluminous, leaves out key pro-forma balance sheet information and should require some further adjustments based upon projected maximum ticket prices, adjusted employee benefits, possible increased/adjusted freight business and wintertime operation costs. Taken in total, these are significant enough items to request another financial projection iteration by the proposer as part of the due diligence process. This was offered by the proposer during the interview and should be accepted as a necessary step.

Another 'catch 22' situation is the validity of the SBA loan, where the bank will only perform their due diligence if a lease document is offered. It may actually be necessary to grant a lease (with contingencies and restrictions), or at least a written letter of intent, to provide the bank sufficient justification to do their own due diligence and determine what, if any, portion of operating capital will be actually supplied via credit. We recommend that the state provide some written intent to the bank that will allow them to go forward from here toward what may be one more step in a prolonged and difficult process. It is also questionable whether this loan process can actually move forward while the rail vs. trail intended use remains as a clearly undecided issue in different areas of Vermont state government.

With the legal complications discovered, any new operator may not be able to quickly get either a clear lease or STB authorization to continue service without assuming the entire railroad as was awarded to LVRC and allow them to post the certificate of discontinuation. There are certainly ample opportunities for the entire process to stall. This process must begin immediately for any use of the corridor and for any funding process to continue for any rail or trail project. We would recommend that the services of an STB attorney be used on this particular issue.

Meanwhile, on the east end of the railroad we see no reason as to why a future STB application should not be made for interim trail use. This will serve to further force and clarify the legal standing of the LVRC operator situation in front of the STB without necessarily drawing any subsequent operator into a battle that they did not wish to enter. Interim and almost immediate trail use may be done by leaving the rails in place and filling level with crushed limestone, as the net liquidation value of the rail and ties for salvage is now at historic lows and may be scrap

value at best. This status could effectively and inexpensively preserve the line potential for the same period of time as advocated by the proposer and allow quicker and less expensive reconversion to rail if a new market is actually found for services upon reopening and if the effort is justified. Preserving this section with rails in place and brush grown in it just in order to allow corridor preservation for over a 5-year period though is not supported under practice or legislation. Any attempt though at ever reactivating the railroad after trail status has been begun could be expected to be a protracted conflict

While it can be argued effectively that the state may be putting good money after bad in further committing capital funds for railroad right-of-way restoration, much of the requested monies for capital projects will be equally needed, and valuable, for preservation of the corridor for the alternative trail use. Repair of washouts, bridge repairs and embankment stabilization is equally needed for that trail approach. Only the additional investment in rail and ties, which is comparatively small due to the prior state investments in track repairs, remains at risk and only that portion of that investment above net liquidation (resale) value is actually sunk cost. In that context, the rail-only risk of the state is comparatively small in proportion to the risk being assumed by the owner, the potential investors and any other creditors asking to contribute toward the pool of working capital necessary for this railroad.

Vermont should not attempt this rail revitalization project unless they are prepared to assume the $4.5 million rehabilitation project by themselves. Federal grants, while possible, are not by any means guaranteed through any conventional rail-only grant program. Alternatives such as EDA, TEA-21, etc. are real, but highly difficult to obtain in a manner equal to the timing necessary in the business plan.

In the case of the Adirondack Scenic, the State of New York has specifically identified capital rail improvements as "corridor improvement and stabilization" not "railroad track repair" as line budget items at the state level. Like Vermont, the desired preservation of the corridor was very clear in 1992, even if the continued rail use was not, and in their case a 119-mile corridor seemed even more daunting. Agreement could be reached much more easily on repairing washouts on a multiple-use rail/trail corridor than specifically on a freight and passenger railroad, when the immediate outcome is unknown.

State of Vermont
Agency of Transportation
National Life Building
Drawer 33
Montpelier, VT
05633-5001

VTrans Working to Get You There

Press Release
Contact: Brian R. Searles
802-828-2657

May 25, 2001

Rail Corridor to Be Used for Trail System

MONTPELIER - - Transportation Secretary Brian R. Searles Friday announced he was accepting the recommendation of the Mountain Valley Corridor Consortium to convert the St. Johnsbury & Lamoille County rail corridor for multiple recreational trail use.

Searles said the agency will begin working with the Town of St. Johnsbury and the Vermont Association of Snow Travelers' (VAST) Lamoille Valley Recreation Committee to convert and develop the 96-mile rail corridor into a series of multi-use recreation trails.

The Mountain Valley Corridor Consortium was created more than a year ago from planning commissions, economic development organizations, and Chambers of Commerce representatives from the three counties along the 96-mile rail corridor to look at future uses for the corridor.

Over the past year the consortium held numerous public hearings and reviewed three separate proposals outlining future uses for the rail corridor, including plans for converting the rail line to recreational use and plans for freight and tourist train services.

Earlier this month, in a report to Secretary Searles, the consortium recommended two separate proposals for recreational trails.

"The goal of the consortium was to ensure continued public use of the corridor, and we think this recommendation meets that goal," said Catherine Dimitruk, Executive Director of the Northwest Region Planning Commission, who served as chair of the Mountain Valley Corridor Consortium.

Friday, Searles praised Dimitruk and the consortium for its work on the report, saying, "A lot of time and effort from a number of people went into this report. I want to thank Catherine and members of the consortium for their efforts."

The report recommends that 2,600 feet of the corridor be incorporated into St. Johnsbury's Three Rivers Transportation Path, and that the remainder of the corridor be leased to VAST for a variety of multiple trail uses to be developed in concert with the Lamoille Valley Recreation Committee.

Over the years the condition of the line has deteriorated and fallen into disrepair, and the current leaseholder, Clyde Forbes of Florida, has not provided service along the line since 1993. Washouts dot the line in different places and two trestles - - one in St. Johnsbury and one in Walden - - no longer exist.

The consortium is comprised of representatives of the Northeastern Vermont Development Association, the Northeast Kingdom Chamber of Commerce, The Lamoille Valley Planning Commission, The Lamoille Valley Chamber of Commerce, The Lamoille Economic Development Corporation, The Northwest Regional Planning Commission, the Franklin County Industrial Development Corporation, The St. Albans Area Chamber of Commerce, and the Vermont Agency of Transportation.

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H764 – Transportation Bill 2001/2002 Final Language Regarding LVRR

Sec. 16. LAMOILLE VALLEY RAILROAD

(a) The agency of transportation shall cooperate with the Lamoille Valley Railroad Company to obtain regulatory approval from the federal Surface Transportation Board for discontinuance of service over the segment of railroad between St. Johnsbury and Swanton.

(b) The agency of transportation shall retain for railbanking under 5 V.S.A. § 3408, all portions of the Lamoille Valley Railroad corridor that the federal Surface Transportation Board authorizes for discontinuance of service. Except as provided in subsection (g) of this section, the existing rail infrastructure shall be preserved in place for possible future rail use. Repairs and maintenance to stabilize and prevent further deterioration of the corridor is authorized.

(c) The agency is directed, subject to approval of discontinuance of service as referenced in subsection (a) of this section, to enter into a long-term lease with the town of St. Johnsbury for use of the section of the corridor between milepost 0.0, through the tunnel underneath US Route 5, across the existing railroad bridge across the Sleepers River to milepost 1.6. As part of the lease, St. Johnsbury shall be responsible for all further restoration, maintenance, and insurance coverage of this designated section of the corridor.

(d) The agency is directed, subject to approval of discontinuance of service as referenced in subsection (a) of this section, to enter into a long-term lease with the Vermont association of snow travelers (VAST) for use of the section of the corridor between milepost 1.6 and Morrisville. As part of the lease, VAST shall be responsible for all required aspects regarding further restoration, maintenance, and insurance coverage of this designated section of the corridor.

(e) The agency is directed, subject to approval of discontinuance of service as referenced in subsection (a) of this section, to enter into a lease with the Vermont association of snow travelers (VAST) for use of the section of the corridor between Morrisville and milepost 94.81. The lease shall be revocable upon the removal of the specified section from railbank status, and shall provide that the existing rail infrastructure shall be preserved in place pursuant to subsection (b) of this section. As part of the lease, VAST shall be responsible for all required aspects regarding further restoration, maintenance, and insurance coverage of this designated section of the corridor.

(f) The agency is directed, subject to approval of discontinuance of service as referenced in subsection (a) of this section, to enter into a long-term lease with the town of Swanton for use of the section of the corridor between milepost 94.81 west to the corridor's terminus. As part of the lease, Swanton shall be responsible for all required aspects regarding further restoration, maintenance, and insurance coverage of this designated section of the corridor.

(g) The agency is authorized to salvage materials from those sections of the rail corridor which are leased to St. Johnsbury, VAST and Swanton pursuant to subsections (c), (d) and (f) of this section. All salvaged materials suitable for rail use shall be preserved for other rail projects in the state.

(h) All references to mileposts in subsections (c), (d), (e) and (f) of this section are approximate. Final specifications shall accommodate the use for which the leasehold is intended.

H454 – Transportation Bill 2002/2003 Final Language Regarding LVRR

Sec. 17. LAMOILLE VALLEY RAILROAD

(a) The secretary of transportation shall establish as a priority the discontinuance of service and the approval for railbanking of the Lamoille Valley Railroad to expedite the conversion of this state-owned resource into a year-round, multiuse recreation path. The secretary shall report the results of these efforts to the general assembly by December 15, 2003.

(b) The agency of transportation is authorized, subject to approval of discontinuance of service and the approval of railbanking by the Federal Surface Transportation Board and notwithstanding any prior legislation to salvage materials from those sections of the rail corridor which are leased to VAST between Morrisville and at or near mile marker 94.81. The agency shall negotiate with the successful request for proposal (RFP) responder for the removal of the rails and ties over the entire length of the Lamoille Valley Railroad bed. If the rails and ties can be removed at no cost to the state, the agency is authorized to enter into an immediate contract for their removal as quickly as possible. Notwithstanding any prior legislation, the agency is further directed to negotiate to retain as much of the salvaged material as possible, at no cost to the state, for use on other rail projects in the state.